



VantageOne™
FINANCIAL SERVICES

My Financial Partner!

ANNUAL REPORT 2009



Our 2009 Board of Directors



Simo Korpisto,
Chair



Dennis Mori,
Vice-Chair



Elizabeth Abrahamsen,
Director



Millie Barker,
Director



Don Claridge,
Director



Don Main,
Director



Howard Neufeld,
Director
(Retired March 2010)

Message from the Board Chair

2009 was a challenging year, though we went through a significant economic slowdown globally; it was a great opportunity for your board to update our strategic direction, continue with our support of our community, and thank our members for their faith in VantageOne through our Great Gobble Give Away program.

The Board is pleased to announce we weathered the economic crisis of 2009 very well, and further, improved our capital and liquidity positions over the past year along with exceeding our net income goal through our focus on sound financial management for our organization. Important key measures of Capital and Liquidity are now double minimum regulatory requirements and position us well to move into the future as the Canadian Economy grows slowly out of the Great Recession.

Over the past year, a key objective of the board was updating our Strategic Plan. This was completed in September 2009 and provides direction to our organization for the next 10 years. Specifically highlighted, are the following strategic imperatives our organization will be addressing:

- **Grow Partnerships** – We want to be recognized as the primary financial partner for our current members.
- **Enhance Operational Efficiency** – To remain independent and financially sound, we must continue to focus on providing an efficient high level of service.
- **Engage and Develop Our People** – Alongside our members, our staff are our most important asset. We need to continue to engage and develop our people, to provide the most knowledgeable advice and service to meet our member's financial needs now and into the future.
- **Create Effective Brand Awareness and Enhance Our Profile** – To continue our success, we need to be a community leader and top of mind in terms of financial services.

These strategic imperatives coupled with our key performance indicators will guide our organizational initiatives over the next many years.

By meeting our financial objectives over the past year, VantageOne has been able to continue the focus of supporting our community and continue the Great Gobble Giveaway program. Over the past year we are proud to have supported many worthwhile organizations who are also valued members. One of our biggest support areas is our sponsorship of the VantageOne Soccer Centre, an outstanding facility developed by the Vernon Soccer Association providing access to field sports 12 months of the year. We have also assisted many charities in the region, supporting the North Okanagan Community Life Society with a cash donation for a fundraising event; we are a key sponsor of the United Way drive thru breakfast; and have been a strong supporter of the Junction Literacy Centre, focused on improving children's reading in our region. On a smaller scale, we supported numerous organizations and charities in making the communities we serve better, including sponsoring a bi-weekly round table group called SharED, where we provide an environment for the Executive Directors of non-profit organizations in our region to come together for information sharing and skill development.

The Board was pleased to continue with our Great Gobble Giveaway program. We gave out a total of 6400 turkeys to members and charity organizations in the Greater Vernon and Edgewood areas. The program has proven extremely important to our members and is our way to thank our members for choosing VantageOne.

In closing, we entered 2009 with a lot of economic uncertainty; we are pleased to report we ended stronger as an organization. I want to thank my fellow Directors for their hard work, participation, and energy over the past year. I would also like to thank the management and staff for their hard work, dedication, and their never ending focus on our members. Finally, I would like to thank you, our members, you are our success and your continuing loyalty to VantageOne is greatly appreciated.

Respectfully submitted,

Simo Korpisto
Chairman of the Board



Message from the Chief Executive Officer

Message from the Chief Executive Officer

As we ended 2008 and entered 2009, there was significant concern in regards to how the future economy would hold for our region. In last year's annual report, I commented on how our region should perform better than many other areas of Canada given our diverse economy and the unique fundamentals in our region. I'm pleased to report that this was the case. Our region did experience a slowdown, but not as much as other areas of our Country. We are now seeing the signs of improved economic activity in Canada. The strengthening of our economy is faster than most experts expected and there is now a threat of inflation re-emerging in our economy that will push interest rates higher over the next year.

The resulting shallow economic contraction in our area allowed VantageOne to continue to grow and avoid any significant loan losses, which can happen in a recessionary period. For 2009, your credit union grew by 7% to over \$237 Million. This was the result of growth in the Consumer Loan portfolio coupled with significant growth in deposits over the year. Our business loan portfolio declined last year as we were less aggressive with this type of lending given the uncertain economic environment.

Turning to our income for the year, with declining interest rates, we continued to see loan revenue decline; however, our ability to proactively manage interest rate risk on our balance sheet through sound financial management allowed us to make up loan revenue loss and contributed to a strong Financial Margin and resulting net earnings of over \$1 Million. These net earnings allowed our credit union to continue to strengthen its capital base, which now exceed \$14 Million placing our organization in a sound financial position.

Operationally, in 2009 the Federal Government launched the new Tax Free Savings Account and we were very successful at explaining and offering this great new tax sheltered saving vehicle to our members. We also focused on updating our Web Site and continue to work at improving this important system. We now offer Mobile Banking through cell phones and have just introduced email mail money transfer allowing members to transfer funds between financial institutions in Canada. In addition, we have been working on preparing for the transition to Chip Cards and will be launching these new cards over the next year.

Finally, over the past year we spent a lot of time developing a new business line to compliment the services already offered to members. Our home is one of the most important financial assets; VantageOne has developed a great system for selling your home through the MLS System with significant cost savings utilizing a VantageOne Licensed Realtor. VantageOne Realty Inc. is now up and running and is designed to work with current realtors in the area to help you sell your home. If you are considering selling your home please contact our VantageOne Realtor.

In closing, I would like to thank our Board of Directors, our Managers and our Staff. I'd like to recognize the dedication of our Board and their challenging work to ensure we continue to be successful. I offer my genuine appreciation to our Managers and Staff for making the choice to work for VantageOne -You truly make our organization great! Lastly, to our members, thank you for putting your faith in VantageOne and choosing to support our organization and your credit union!

Respectfully submitted,



Glenn Benischek
Chief Executive Officer



Auditors' report

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To the members of
VantageOne Credit Union

We have audited the consolidated balance sheet of VantageOne Credit Union as at December 31, 2009 and the consolidated statements of earnings and retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kelowna, BC



February 1, 2010

Chartered accountants

Partners

Kevin Crookes, CA, CBV
Paul F.S. Gallo, CA
Bryn Gilbert, CA
James R. Grant, CA
Bill McTavish, CGA, CA
Anne Postlewaite, CA
Martin Rutherford, CA
Dan Vass, CA
J. Kim Ward, CA, CFP

VantageOne Credit Union

Consolidated balance sheet

December 31 2009 2008

Assets

| | | |
|---------------------------------|-----------------------|-----------------------|
| Cash resources (Note 5) | \$ 25,576,763 | \$ 9,602,397 |
| Loans (Note 6) | 182,867,354 | 184,730,640 |
| Investments and other (Note 7) | 21,506,866 | 18,169,999 |
| Derivative instruments (Note 4) | 2,873,035 | 4,401,109 |
| Capital (Note 8) | <u>5,065,093</u> | <u>5,434,693</u> |
| | <u>\$ 237,889,111</u> | <u>\$ 222,338,838</u> |

Liabilities

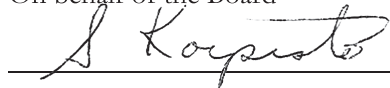
| | | |
|-----------------------|--------------------|--------------------|
| Deposits (Note 9) | \$ 220,907,602 | \$ 203,848,704 |
| Payables and accruals | <u>312,429</u> | <u>1,803,842</u> |
| | <u>221,220,031</u> | <u>205,652,546</u> |

Members' equity

| | | |
|--|-----------------------|-----------------------|
| Retained earnings | 14,862,513 | 13,745,121 |
| Accumulated other comprehensive income | <u>1,806,567</u> | <u>2,941,171</u> |
| | <u>16,669,080</u> | <u>16,686,292</u> |
| | <u>\$ 237,889,111</u> | <u>\$ 222,338,838</u> |

Commitments (Note 19)

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements

VantageOne Credit Union

Consolidated statement of earnings and retained earnings

Year ended December 31 2009 2008

| | | |
|---|----------------------|----------------------|
| Financial income | | |
| Loans | \$ 9,256,881 | \$ 10,173,720 |
| Cash resources and investments | <u>2,715,298</u> | <u>1,056,390</u> |
| | <u>11,972,179</u> | <u>11,230,110</u> |
| Financial expense | | |
| Deposits | 4,634,726 | 5,121,654 |
| Borrowings | 4,850 | 151,229 |
| Share dividends | <u>33,128</u> | <u>41,363</u> |
| | <u>4,672,704</u> | <u>5,314,246</u> |
| Financial margin | 7,299,475 | 5,915,864 |
| Provision for credit loss (Note 6) | <u>314,679</u> | <u>178,752</u> |
| | <u>6,984,796</u> | <u>5,737,112</u> |
| Other income (Note 15) | <u>2,806,971</u> | <u>2,812,234</u> |
| Operating margin | 9,791,767 | 8,549,346 |
| Operating expenses (Note 16) | <u>8,252,301</u> | <u>7,821,062</u> |
| Earnings before income taxes | <u>1,539,466</u> | <u>728,284</u> |
| Income taxes (Note 17) | | |
| Current | 391,569 | 148,728 |
| Future | <u>30,505</u> | <u>17,609</u> |
| | <u>422,074</u> | <u>166,337</u> |
| Net earnings | <u>\$ 1,117,392</u> | <u>\$ 561,947</u> |
| <hr/> | | |
| Retained earnings, beginning of year | \$ 13,745,121 | \$ 13,183,174 |
| Net earnings | <u>1,117,392</u> | <u>561,947</u> |
| Retained earnings, end of year | <u>\$ 14,862,513</u> | <u>\$ 13,745,121</u> |

See accompanying notes to the consolidated financial statements

VantageOne Credit Union
Consolidated statement of comprehensive loss and
accumulated other comprehensive income

| Year ended December 31 | 2009 | 2008 |
|---|----------------------------|----------------------------|
| Net earnings | \$ 1,117,392 | \$ 561,947 |
| Other comprehensive (loss) income, net of tax | | |
| Unrealized (loss) gain on derivatives, net of tax recovery of \$520,702 | <u>(1,134,604)</u> | <u>3,360,806</u> |
| Comprehensive (loss) income | <u>\$ (17,212)</u> | <u>\$ 3,922,753</u> |
| <hr/> | | |
| Accumulated other comprehensive Income (loss), beginning of year | \$ 2,941,171 | \$ (419,635) |
| Other comprehensive (loss) income | <u>(1,134,604)</u> | <u>3,360,806</u> |
| Accumulated other comprehensive income, end of year | <u>\$ 1,806,567</u> | <u>\$ 2,941,171</u> |

See accompanying notes to the consolidated financial statements

VantageOne Credit Union

Consolidated statement of cash flows

Year ended December 31

2009

2008

Increase (decrease) in cash resources

Operating activities

| | | | | |
|--|----|----------------|----|------------------|
| Net earnings | \$ | 1,117,392 | \$ | 561,947 |
| Adjustments for non-cash items | | | | |
| Provision for credit loss | | 314,679 | | 178,752 |
| Amortization | | 661,516 | | 695,473 |
| Future income taxes | | 30,505 | | 17,609 |
| Change in interest accruals | | (331,923) | | 339,090 |
| Payables and accruals | | (1,544,236) | | (72,457) |
| Amortization of transitional other comprehensive income amount | | (104,914) | | (104,914) |
| | | <u>143,019</u> | | <u>1,615,500</u> |

Financing activities

| | | | | |
|------------------------------|--|-------------------|--|-------------------|
| Deposits, net of withdrawals | | 17,379,946 | | 18,337,108 |
| Repayments of borrowings | | - | | (6,160,000) |
| | | <u>17,379,946</u> | | <u>12,177,108</u> |

Investing activities

| | | | | |
|----------------------------|--|--------------------|--|---------------------|
| Loans, net of repayments | | 1,559,482 | | (8,585,886) |
| Investments and other | | (2,816,165) | | (1,878,820) |
| Purchase of capital assets | | (291,916) | | (212,303) |
| | | <u>(1,548,599)</u> | | <u>(10,677,009)</u> |

Net increase in cash resources

15,974,366

3,115,599

Cash resources, beginning of year

9,602,397

6,486,798

Cash resources, end of year

\$ 25,576,763

\$ 9,602,397

Supplementary cash flow information

| | | | | |
|-------------------|----|-----------|----|-----------|
| Interest paid | \$ | 4,960,624 | \$ | 5,056,362 |
| Income taxes paid | \$ | 2,092,391 | \$ | 378,595 |
| Dividends paid | \$ | 36,746 | \$ | 80,540 |

See accompanying notes to the financial statements

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

1. Governing legislation and operations

The Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members in Vernon and the surrounding area.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements management has made estimates and assumptions that could affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those reported.

Principles of consolidation

These consolidated financial statements include the accounts of the Credit Union and the Credit Union's wholly owned subsidiaries, VantageOne Financial Corp. and VantageOne Capital Inc. All significant intercompany transactions have been eliminated upon consolidation.

Loans

Loans are initially measured at fair value and subsequently remeasured at their amortized cost, net of allowance, using the effective interest rate method.

Loan interest

Interest income from loans is recorded on the accrual method, except where a loan is impaired. Interest received on an impaired loan is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the interest received is credited to the principal.

Loan fees

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be material and an adjustment to loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

(continued)

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

2. Summary of significant accounting policies (continued)

Loans (continued)

Allowance for loan losses

The allowance for loan losses is maintained at a level considered adequate to absorb anticipated loan losses. Specific allowances are provided for loans that have been identified as impaired. A loan is classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectability of principal and interest, or when interest is 180 days past due. The general allowance represents the best estimate of probable losses within the portion of the portfolio that has not been specifically identified as impaired. The amount is determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

Specific allowances are supplemented by general allowances determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

Investments

Investments in equity investments that do not have a quoted market price in an active market are measured at cost.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Rates of amortization applied on a straight-line basis to write off the cost of capital assets over their estimated lives are as follows:

| | |
|---------------------------|---------------------|
| Buildings and renovations | 10, 15 and 40 years |
| Office equipment | 2 and 5 years |
| Furniture and fixtures | 15 years |
| Leasehold improvements | 10 years |

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

2. Summary of significant accounting policies (continued)

Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Net future income tax assets and liabilities are included in other assets or payables and accruals, as applicable.

Membership shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, the shares are classified as equity.

Distributions to members

Patronage rebates and dividends on shares classified as liabilities are charged against earnings.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows: At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars using the exchange rate in effect at that date. At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Financial instruments

The financial instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union's financial instruments classified as held for trading include cash and current accounts.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union's investments held with Central 1 Credit Union have been classified as available for sale.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. The Credit Union's financial instrument classified as loans and receivables include all loans, accrued interest and other receivable balances. The Credit Union's financial instruments classified as held to maturity include deposits held with Central 1 Credit.

Financial instruments classified as other financial liabilities include all deposits, borrowings and payables and accruals. Other financial liabilities are measured at amortized cost.

Derivative and hedge accounting

Derivative financial instruments are contracts that are utilized to manage financial risk such as changes in interest rates or other financial indices. The Credit Union uses derivative financial instruments, primarily interest rate swaps, to manage interest rate exposure and applies hedge accounting where applicable.

Derivatives are carried at fair value, and are reported as assets when they have a positive fair value and liabilities when they have a negative fair value.

In order for an interest rate derivative to qualify as hedge accounting, the hedge relationship must be designated and formally documented at inception, detailing the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, the type of derivative used, and how hedge effectiveness is assessed and measured. Changes in the fair value of the derivative must be highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged item. Hedge effectiveness is evaluated at the inception of the hedging relationship on a minimum quarterly basis, both retrospectively and prospectively. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income, while gains and losses in fair value relating to the ineffective portion is recognized immediately in the statement of earnings.

Comprehensive income

Comprehensive income includes all changes in equity of the Credit Union during a period except those resulting from investments by members and distributions to members. The major components included in accumulated other comprehensive income ("AOCI") are unrealized gains and losses on financial assets classified as available for sale and gains and losses incurred on effective hedging relationships.

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

3. Change in accounting policies and accounting framework

(a) Current year changes

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the EIC issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty when determining the fair value of financial assets and financial liabilities, including derivative financial instruments, for presentation and disclosure purposes. EIC-173 is applicable to the Credit Union's annual consolidated financial statements for its fiscal years ending December 31, 2009. The adoption of the EIC did not result in a material impact to the Valuation of the Credit Union's financial assets and financial liabilities as disclosed in Note 14.

Financial instruments – disclosures

In June 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures, was amended to enhance the disclosure requirements including the relative reliability of the inputs used in fair value measurements and the liquidity risk of financial instruments. The amendments are effective for the Credit Unions' annual consolidated financial statements for its fiscal years ending December 31, 2009 and impact the disclosures contained in Note 14.

(b) Future change in accounting framework

International Financial Reporting Standards (“IFRS”)

On January 1, 2011 IFRS will replace Canadian generally accepted accounting principles for publicly accountable entities. The Credit Union will begin reporting financial statements in accordance with IFRS on January 1, 2011. The Credit Union has begun assessing the impact to the adoption of IFRS on its financial statements. The financial impact cannot be reasonably estimated at this time. Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

4. Risk management

In the normal course of business, the Credit Union is exposed to credit risk, liquidity risk, market risk. For all of the risks noted below, there has been no change in how the Credit Union manages those risks from the previous year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet. See Note 6 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being Vernon and surrounding areas.

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. See Note 5 for further information about the Credit Union's regulatory requirement.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. See Note 14 for further information on fair value of financial instruments.

(continued)

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

4. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. At December 31, 2009, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of \$75,000,000 (2008 - \$60,000,000) maturing at various times through to 2013. As at December 31, 2009 the interest rate swaps have a fair market value gain (loss) of \$2,873,035 (2008 – \$4,401,109). Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. See Note 13 for further information on interest rate sensitivity.

| 5. Cash resources | <u>2009</u> | <u>2008</u> |
|--|----------------------|---------------------|
| Cash and current accounts | \$ 4,915,886 | \$ 4,424,851 |
| Term deposits and accrued interest | | |
| Callable or maturing in - three months or less | <u>20,660,877</u> | <u>5,177,546</u> |
| | <u>\$ 25,576,763</u> | <u>\$ 9,602,397</u> |

Provincial legislation requires the Credit Union to maintain, for liquidity purposes, deposits with Central 1 Credit Union of at least 8% (2008 - 8%) of deposits and borrowings. At December 31, 2009 the Credit Union liquidity deposits exceeds the minimum requirement by \$23,284,762 (2008 - \$6,848,866).

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

| 6. Loans | <u>2009</u> | <u>2008</u> |
|---------------------------|-----------------------|-----------------------|
| Personal loans | | |
| Residential mortgages | \$ 121,756,396 | \$ 116,243,906 |
| Other | 6,857,802 | 7,004,241 |
| Commercial loans | | |
| Mortgages | 40,804,325 | 45,781,509 |
| Other | 6,469,345 | 8,067,511 |
| Leases | 7,605,941 | 8,100,892 |
| Accrued interest | 393,615 | 382,740 |
| Deferred loan fees | (75,222) | (92,470) |
| | <u>183,812,202</u> | <u>185,488,329</u> |
| Allowance for loan losses | | |
| Specific | 403,625 | 172,245 |
| General | 541,223 | 585,444 |
| | <u>944,848</u> | <u>757,689</u> |
| | <u>\$ 182,867,354</u> | <u>\$ 184,730,640</u> |

| Allowance for loan losses | | | | <u>2009</u> | <u>2008</u> |
|---------------------------|-----------------------------|-------------------|-----------------------------|--------------------------|--------------------------|
| | Beginning <u>balance</u> | Provision | Write-offs/ (recoveries) | Ending <u>balance</u> | Ending <u>balance</u> |
| Residential mortgages | \$ 156,186 | \$ 64,493 | \$ (59,005) | \$ 161,674 | \$ 156,186 |
| Commercial mortgages | 388,411 | 250,612 | (31,522) | 607,501 | 388,411 |
| Leases | 197,350 | (25,426) | (21,251) | 150,673 | 197,350 |
| Other loans | 15,742 | 25,000 | (15,742) | 25,000 | 15,742 |
| | <u>\$ 757,689</u> | <u>\$ 314,679</u> | <u>\$ (127,520)</u> | <u>\$ 944,848</u> | <u>\$ 757,689</u> |

| | | |
|--|--------------|--------------|
| Percentage of total loans and accrued interest | <u>0.52%</u> | <u>0.41%</u> |
|--|--------------|--------------|

| Impaired loans and related allowances | | | | <u>2009</u> | <u>2008</u> |
|---------------------------------------|------------------------|------------------------------|--|---------------------------|---------------------------|
| | Loan <u>balance</u> | Specific <u>allowance</u> | | Carrying <u>amount</u> | Carrying <u>amount</u> |
| Residential mortgages | \$ 146,853 | \$ 49,045 | | \$ 97,808 | \$ 238,654 |
| Commercial mortgages | 1,559,828 | 288,907 | | 1,270,921 | 592,431 |
| Leases | 90,102 | 65,673 | | 24,429 | - |
| | <u>\$1,796,783</u> | <u>\$ 403,625</u> | | <u>\$1,393,158</u> | <u>\$ 831,085</u> |

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

| 7. Investments and other | <u>2009</u> | <u>2008</u> |
|---|-----------------------------|-----------------------------|
| Term deposits and accrued interest non-callable or maturing greater than three months | \$ 19,036,428 | \$ 17,426,359 |
| Shares | | |
| CEDA | 10 | 10 |
| Central 1 Credit Union | 602,479 | 557,731 |
| CUPP Services Ltd. | 86,860 | 77,456 |
| Stabilization Central Credit Union | 258 | 258 |
| Receivables and prepaids | <u>1,780,831</u> | <u>108,185</u> |
| | <u>\$ 21,506,866</u> | <u>\$ 18,169,999</u> |

Investment in the shares of Central 1 Credit Union is required as a condition of membership and by provincial legislation.

| 8. Capital assets | | | <u>2009</u> | <u>2008</u> |
|---------------------------|-----------------------------|---------------------------------|----------------------------|----------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> | <u>Net book value</u> |
| Land | \$ 762,669 | \$ - | \$ 762,669 | \$ 762,669 |
| Buildings and renovations | 5,720,278 | 3,509,076 | 2,211,202 | 2,248,122 |
| Office equipment | 3,252,212 | 2,650,683 | 601,529 | 824,901 |
| Furniture and fixtures | 809,135 | 613,107 | 196,028 | 233,838 |
| Leasehold improvements | <u>1,447,349</u> | <u>153,684</u> | <u>1,293,665</u> | <u>1,365,163</u> |
| | <u>\$ 11,991,643</u> | <u>\$ 6,926,550</u> | <u>\$ 5,065,093</u> | <u>\$ 5,434,693</u> |

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

| 9. Deposits | <u>2009</u> | <u>2008</u> |
|------------------------------------|------------------------------|------------------------------|
| Term | \$ 93,684,359 | \$ 93,742,319 |
| Demand | 90,483,035 | 77,136,834 |
| Registered savings plans | 33,853,155 | 29,717,811 |
| Accrued interest and dividends | 1,799,317 | 2,120,365 |
| Membership equity shares (Note 11) | 957,584 | 999,526 |
| Non-equity shares | <u>130,152</u> | <u>131,849</u> |
| | <u>\$ 220,907,602</u> | <u>\$ 203,848,704</u> |

Under agreements with the trustee of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

10. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, an operating line and term facility of \$24,684,044 secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1 Credit Union. At year end, the balance outstanding was \$ nil (2008 - \$ nil).

11. Equity shares

The Credit Union may issue two classes of shares designated as membership equity of \$1 par value.

- Membership equity shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership.
- Allocation shares are issued by the Credit Union to members through dividends. Redemption is permitted up to a limit of 10% from the entire pool.

Membership shares issued and outstanding are included in deposit balances (see Note 9).

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

12. Capital requirements and management

The Credit Union is required under governing legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2009 the Credit Union had a capital base equal to 16.13% (2008 – 14.85%).

The Credit Union's capital consists of retained earnings, equity shares and accumulated other comprehensive income.

The Credit Union employs a Capital Management Plan that is reviewed by management and the Board of Directors. The Capital Management Plan forecasts the Credit Union's capital position over a five year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirement strategy employed during the year ended December 31, 2009.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets. Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

13. Interest rate sensitivity

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off-balance sheet instruments scheduled to reprice on particular dates. The following table details the Credit Union's exposure to interest rate risk as defined and prescribed by CICA Handbook Section 3862 – *Financial Instrument Disclosure*.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing or maturity dates of certain loans and deposits may differ significantly from the contractual dates.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

13. Interest rate sensitivity (continued)

| | Interest sensitive balances (000's) | | | Not | <u>Total</u> |
|--|-------------------------------------|------------------------------|-----------------------------|------------------------------|--------------------|
| | Within <u>3 months</u> | 4 Months <u>to 1 year</u> | Over 1 <u>to 5 years</u> | interest <u>sensitive</u> | |
| Assets | | | | | |
| Cash resources | \$ 12,850 | \$ 5,500 | \$ 2,275 | \$ 4,952 | \$ 25,577 |
| <i>Yield</i> | <i>0.4%</i> | <i>1.4%</i> | <i>1.6%</i> | | |
| Loans | 94,965 | 20,899 | 67,630 | (627) | 182,867 |
| <i>Yield</i> | <i>4.3%</i> | <i>6.0%</i> | <i>6.0%</i> | | |
| Investments and other | 1,310 | 3,190 | 14,250 | 10,695 | 29,445 |
| <i>Yield</i> | <i>4.2%</i> | <i>3.8%</i> | <i>2.8%</i> | | |
| Derivatives | <u>(45,000)</u> | <u>5,000</u> | <u>40,000</u> | <u>-</u> | <u>-</u> |
| | <u>64,125</u> | <u>34,589</u> | <u>124,155</u> | <u>15,020</u> | <u>237,889</u> |
| Liabilities | | | | | |
| Deposits | 44,463 | 67,118 | 39,788 | 69,538 | 220,907 |
| <i>Yield</i> | <i>1.6%</i> | <i>2.6%</i> | <i>3.6%</i> | | |
| Other | <u>-</u> | <u>-</u> | <u>-</u> | <u>16,982</u> | <u>16,982</u> |
| | <u>44,463</u> | <u>67,118</u> | <u>39,788</u> | <u>86,520</u> | <u>237,889</u> |
| Interest sensitivity position, 2009 | \$ <u>19,662</u> | \$ <u>(32,529)</u> | \$ <u>84,367</u> | \$ <u>(71,500)</u> | \$ <u>-</u> |
| Interest sensitivity position, 2008 | \$ <u>8,486</u> | \$ <u>(24,782)</u> | \$ <u>83,106</u> | \$ <u>(66,810)</u> | \$ <u>-</u> |

Based on the current financial instruments, it is estimated that a 100 basis point increase in the prime rate would decrease financial margin by \$551,840 (2008 – increase \$177,476). A 100 basis point decrease in the prime rate would increase financial margin by \$207,305 (2008 – decrease \$201,139).

14. Fair values of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

14. Fair values of financial instruments (continued)

Financial instruments recognized at fair value in the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Cash resources, government securities and bonds and Central 1bid term deposits are classified as Level 1 fair value measurements. Their fair values are based on quoted market prices in active market for identical assets.

Loans, deposits and shares and any remaining investments are not classified into fair value measurement levels as they are not recognized at fair value in the consolidated balance sheet.

No fair values have been determined for premises and equipment or any other asset or liability that is not a financial instrument. The fair values of variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Changes in interest rates are the main cause of changes in the fair value of the Credit Union's financial instruments. The majority of the Credit Union's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes.

| | <u>2009 (000's)</u> | | | <u>2008 (000's)</u> |
|------------------------------|---------------------|-----------------------------|-----------------------------------|-----------------------------------|
| | <u>Book value</u> | <u>Estimated fair value</u> | <u>Favourable/ (unfavourable)</u> | <u>Favourable/ (unfavourable)</u> |
| Assets | | | | |
| Cash resources | \$ 25,577 | \$ 25,611 | \$ 34 | \$ - |
| Loans | 182,867 | 187,327 | 4,460 | 2,097 |
| Investments and other | 21,507 | 21,864 | 357 | 847 |
| Derivative instrument | 2,873 | 2,873 | - | - |
| | | | <u>4,851</u> | <u>2,944</u> |
| Liabilities | | | | |
| Deposits | 220,908 | 222,442 | (1,534) | (2,158) |
| Payables and accruals | 312 | 312 | - | - |
| | | | <u>(1,534)</u> | <u>(2,158)</u> |
| Fair value difference | | | <u>\$ 3,317</u> | <u>\$ 786</u> |

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

| 15. Other income | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| Account service fees | \$ 806,272 | \$ 802,754 |
| Amortization of AOCI transition amount | 104,914 | 104,914 |
| Foreign exchange | 84,346 | 17,484 |
| Insurance commissions, fees and lease revenue | 1,184,701 | 1,202,789 |
| Loan administration fees | 166,234 | 253,594 |
| Rental income | 427,279 | 397,788 |
| Safety deposit rentals | 33,225 | 32,911 |
| | <u>\$ 2,806,971</u> | <u>\$ 2,812,234</u> |

| 16. Operating expenses | <u>2009</u> | <u>2008</u> |
|------------------------------------|---------------------|---------------------|
| Advertising | \$ 149,868 | \$ 185,669 |
| Amortization | 661,516 | 695,473 |
| Capital taxes | 71,392 | 143,409 |
| Data processing | 341,586 | 315,235 |
| Dues and assessments | 363,235 | 395,506 |
| Human resource and administration | 156,934 | 142,643 |
| Maintenance, supplies and security | 270,430 | 272,906 |
| Member relations | 155,744 | 151,758 |
| Premises, occupancy and office | 912,271 | 896,485 |
| Professional fees and insurance | 446,189 | 503,172 |
| Salaries and benefits | 4,723,136 | 4,118,806 |
| | <u>\$ 8,252,301</u> | <u>\$ 7,821,062</u> |

17. Income taxes

The total provision for income taxes in the statement of earnings and retained earnings is at a rate less than the combined federal and provincial statutory income tax rates of the applicable year for the following reasons:

| | <u>2009</u> | <u>2008</u> |
|---|--------------------|--------------------|
| Combined federal and provincial statutory income tax rate | 30.00% | 31.00% |
| Decrease in rate due to: | | |
| Rate reduction applicable to Credit Unions | (16.50)% | (16.08)% |
| Other, net | <u>13.92%</u> | <u>7.92%</u> |
| Effective income tax rate | <u>27.42%</u> | <u>22.84%</u> |

(continued)

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

17. Income taxes (continued)

The components of future income tax balances are as follows:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------|------------------|-------------------|
| Future income tax assets | | |
| Allowance for loan losses | \$ 66,000 | \$ 58,000 |
| Deferred items | 6,000 | 1,000 |
| Other | 50,000 | 131,000 |
| Unrealized gain on derivatives | <u>(22,318)</u> | <u>(37,495)</u> |
| Net future income tax assets | <u>\$ 99,682</u> | <u>\$ 152,505</u> |

The Credit Union has losses carried forward for tax purposes expiring in the following years:

| | |
|------|------------------|
| 2014 | \$ 7,143 |
| 2015 | 24,607 |
| 2028 | 39,004 |
| 2029 | <u>1,963</u> |
| | <u>\$ 72,717</u> |

The potential tax benefits of the losses carried forward are offset by a valuation allowance of the same amount as there is substantial uncertainty that the losses carried forward will be utilized before expiring.

18. Pension obligations

The Credit Union has an optional defined benefit plan for some employees. Contributions are made by the Credit Union and employees. The pension is based on years of service, contributions and average earnings at retirement. An actuarial valuation is performed periodically to determine the present value of the accrued pension benefits. As at July 1, 2009 (date of the most recent valuation), the plan actuary reported that the actuarial determined liabilities of the plan for accrued pension benefits exceeded the plan assets by \$470,400 and will be paid over future periods. Contributions paid by the Credit Union for the year ended December 31, 2009 amounts to \$410,632 (2008 - \$45,615).

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2009

19. Commitments

Data processing

The Credit Union is committed to acquire online data processing services until December 2013. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Armstrong and Okanagan Landing branch

The Credit Union has entered into agreements to lease its Armstrong branch until 2011 and Okanagan Landing branch until 2017. The annual rent of premises over the next five years consists of a minimum rent plus taxes, maintenance and certain other expenses and is as follows:

| | |
|------|------------|
| 2010 | \$ 173,527 |
| 2011 | \$ 173,527 |
| 2012 | \$ 127,096 |
| 2013 | \$ 127,890 |
| 2014 | \$ 127,890 |

Funds under administration

Off balance sheet funds under administration by the Credit Union are comprised of loans that have been sold and loans that have been syndicated and are administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balances as at year end are as follows:

| | <u>2009</u> | <u>2008</u> |
|------------------|--------------|--------------|
| Sold loans | \$ nil | \$ 146,850 |
| Syndicated loans | \$ 6,957,250 | \$ 9,274,670 |

Letters of credit

In the normal course of business, the Credit Union enters into various off-balance sheet commitments such as letters of credit. Letters of credit are not reflected in the balance sheet.

At December 31, 2009, the Credit Union has issued letters of credit on behalf of members in the amount of \$469,948 (2008 - \$739,090). These letters of credit have various security.

VantageOne Credit Union
Notes to the consolidated financial statements
December 31, 2009

20. Related party transactions

Directors received total remuneration of \$24,175 (2008 - \$26,500).

At December 31, 2009, loans and leases to directors, officers and other related parties of the Credit Union amounted to \$3,474,780 (2008 - \$3,115,016). All such loans and leases were granted in accordance with normal lending terms, except for certain loans to employees and officers at reduced rates.

21. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year presentation.

Our Services

Banking Services:

Daily Interest Chequing Accounts
Daily Interest Savings Accounts
Package Accounts
Children & Youth Accounts
Senior Package Accounts
USA Dollar Accounts
Business Accounts & Night Depository
Organization Accounts
Money Orders & Travellers Cheques
Foreign Currency Orders
Safety Deposit Boxes

Investment Services:

Term Deposit Investments
Registered Retirement Savings (RRSP)
Registered Retirement Income (RRIF)
Registered Education Savings Plan (RESP)
Tax Free Savings Accounts (TFSA)

Loan Services:

Consumer 1st and 2nd Mortgages
Consumer Loans
Commercial Mortgages and Loans
Lines of Credit
MasterCard Credit Card

Delivery Systems:

Four Full Service Branches
Live Call Centre
Internet Banking
Mobile Banking
Automated Telephone System
24 Hours ATMs
MemberCard ATM & Direct Payment Card

VantageOne Financial Corp.

Financial Advisory Services
Mutual Funds
Life Insurance

VantageOne Capital Inc.

Equipment Lease Financing

VantageOne Realty Inc.

Real Estate Listing Services

Our Branches

Armstrong Branch

Address: 1 – 3300 Smith Drive
Armstrong BC V0E 1B1
Hours:
Monday to Thursday 9:30 am to 5:00 pm
Friday 9:30 am to 6:00 pm
Saturday 9:30 am to 3:00 pm
Branch: 250-546-6405

Arrow Lake Branch

Mailing Address: PO Box 40
Edgewood BC V0G 1J0
Street Address: 223 Killarney Crescent
Hours:
Tuesday 9:00 am to 1:00 pm
Wednesday 1:00 pm to 4:00 pm
Thursday 1:00 pm to 4:00 pm
Friday 1:00 pm to 5:00 pm
Branch: 250-269-7220

Call Centre Hours

Monday to Friday 8:00 am to 5:30 pm
Saturday 9:00 am to 3:00 pm

Toll Free: 1-888-339-8328

Okanagan Landing Branch with Drive thru ATM

Address: 120 – 5301 25th Avenue
Vernon BC V1T 9R1
Okanagan Landing Plaza
Hours:
Monday to Thursday 9:30 am to 5:00 pm
Friday 9:30 am to 6:00 pm
Saturday 9:30 am to 3:00 pm
Branch/Call Centre: 250-545-9251

Vernon Main Branch

Address: 3108 33 Avenue
Vernon BC V1T 2N7
Hours:
Monday to Friday 9:30 am to 5:00 pm
Saturday 9:30 am to 1:00 pm
Branch/Call Centre: 250-545-9251

Memberlink Local: 250-545-4121

Memberlink Toll Free: 1-866-545-4121

E-mail: info@vantageone.net



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